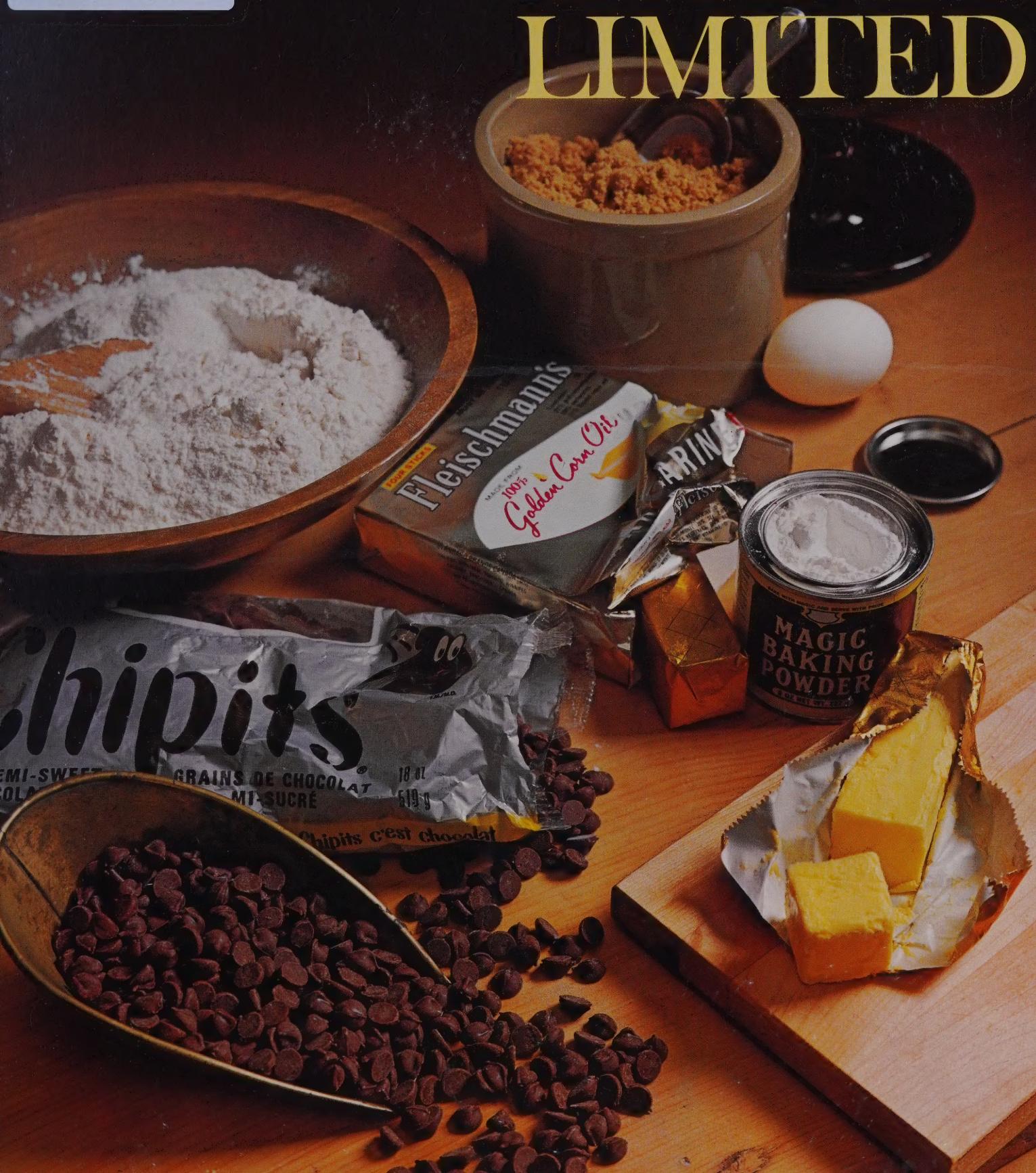


STANDARD BRANDS LIMITED





*Calona Wines gain their distinctive qualities from a variety
of native and hybrid grapes grown to perfection on the slopes
of the Okanagan Valley in British Columbia.*

1977: THE YEAR IN BRIEF

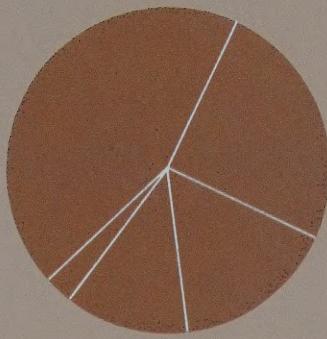
Standard Brands Limited, one of the largest manufacturers, processors and distributors of food and related products in Canada, had record 1977 consolidated net sales of \$324 million and record net income of \$12 million. These data represent respective sales and income increases of 15% and 10% over 1976 results.

1977 was a year fraught with a significant amount of business problems and economic uncertainties. These financial achievements attest to the Company's inherent strengths through its diverse product groups and its responsive employees.

	<u>1977</u>	<u>1976</u>
	(thousands of dollars)	
Net Sales	323,996	282,256
Net Income	12,157	11,056
Working Capital	57,299	25,831
Capital Expenditures	6,864	5,965
Long-Term Debt	31,117	4,648
Shareholders' Equity	103,203	92,046

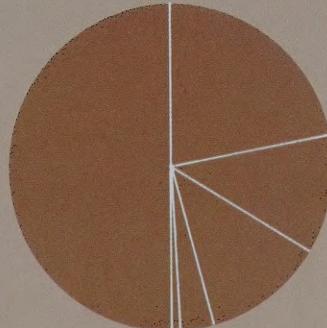
1977 Net Sales by Product Group

44% Grocery
25% Confectionery
16% Food Services
12% Wine and Spirits
3% Baking Ingredients



Distribution of Sales Dollar for the Year Ended December 31, 1977

49.9% Materials
22.0% Other Operating Expenses
12.0% Income, Sales & Excise Taxes
11.9% Paid to Employees
3.4% Net Income
.8% Depreciation



Standard Brands Limited is one of Canada's major manufacturers and marketers of consumer foods; baking ingredients; wine and distilled spirits; confectionery and snack products; and pet foods.

It also plays a significant role in meeting product needs of restaurants and other institutional customers. The Company is organized into five divisions with offices, plants, and warehousing from British Columbia to Newfoundland.

For Standard Brands Limited and its operating divisions, it was a year of successful involvement in the Canadian business scene. In 1977, the Company's total assets exceeded \$200 million, net sales reached \$323,996,000 and improved earnings were reported for the 11th year in a row. This Annual Report details the year's events from both a financial and a marketing viewpoint.

NATIONAL OPERATIONS

3,205 salaried and hourly paid employees—
20 manufacturing plants and 6 redistribution
warehouses coast to coast.

- REGIONAL SALES OFFICES
- REGIONAL WAREHOUSES
- PLANTS





Halifax, N.S., across the harbour from Moirs in Dartmouth.



Bridgetown, N.S., historic home of Acadian Distillers.



Sherbrooke, P.Q., where Lowney's makes its chocolate bars.



Montreal, P.Q., coffee, yeast and dessert products manufacturing.



Scarborough, Ontario, home of Canada's largest margarine plant.



Toronto, Ontario, manufacturing of spirits, food and confectionery products.



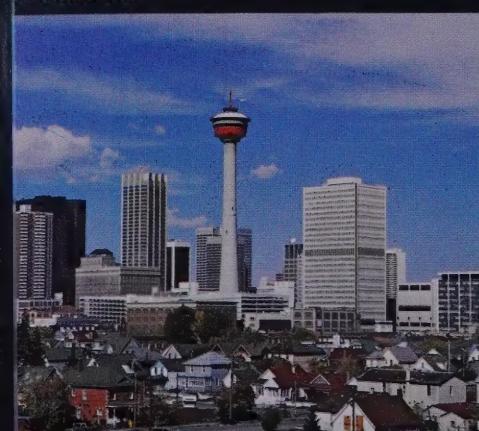
Mississauga, Ontario, home of Dr. Ballard's.



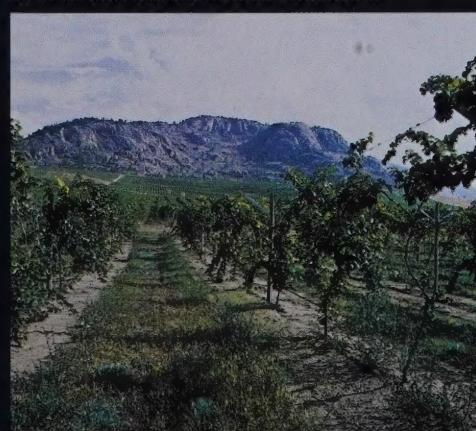
Winnipeg, Manitoba, manufacturing centre for Melrose coffee and Dr. Ballard's.



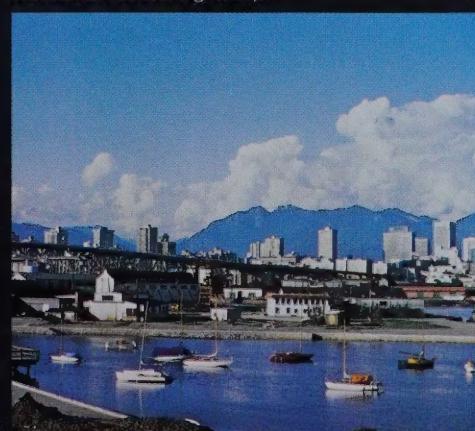
Weyburn Sask., prairie home of Central Canadian Distilling Corp.



Calgary, Alberta, western site for Leischmann manufacturing.

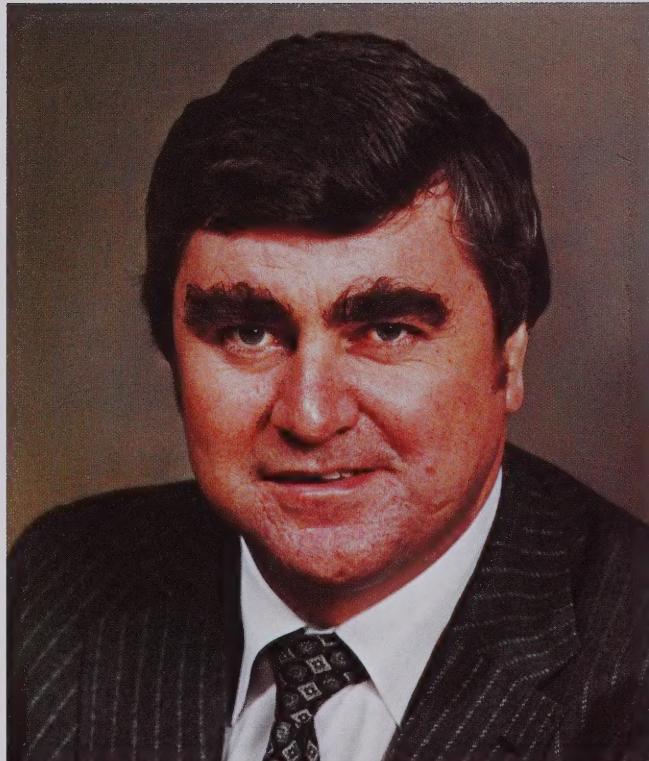


Kelowna, B.C., home of Calona Wines and the Okanagan Valley.



Vancouver, B.C., Pacific coast home of Pinetree Nuts and Swan Valley Foods.

THE PRESIDENT'S REPORT



JOHN R. MACDONALD
President and Chief Executive Officer
Standard Brands Limited

Our fiscal year 1977 was a year of major accomplishment and continuing progress for Standard Brands Limited.

For the 11th consecutive year, new records were set in sales and earnings. Sales rose 15% over 1976 to a high of \$324 million while net income rose 10% to a total of \$12 million. During this same period we continued to improve our production facilities by investing \$7 million in capital expansion. This is up 14% from the previous year.

Major programmes in human resources, quality improvement and product development were accelerated. These programmes combined with the strength of the Company's brand-name franchises, contributed to our success in the face of a generally sluggish Canadian economy, and a slowed but still nagging inflation rate.

Consumer foods led the way. Our consumer foods division enjoyed a record year, with market share gains on both Fleischmann's Corn Oil Margarine and Blue Bonnet Margarine further improving our position as Canada's number one manufacturer of margarines. Baking Aids, as well as Beverage and Dessert products continued to show satisfactory growth.

This division continued its involvement and active participation with groups promoting fitness in the nation through sponsorship of amateur sports and with a fitness orientation in its commercial messages.

Pet foods deliver continued growth. In our 1976 Annual Report we were proud to announce that Dr. Ballard's Canned Dog Food had passed all necessary tests and was officially certified by the Canadian Veterinary Medical Association. This nutritional certification helped Dr. Ballard's continue its position as Canada's leading pet food marketer. During 1977 Dr. Ballard's extended this programme gaining CVMA certification for its Canned Cat Food and its Dry Dog Food, Burgerbits. Market share gains continued, with Miss Mew Luxury Canned Cat Food rising from third place to virtual leadership in this segment.

Dr. Ballard's commitment to market only competitively superior products was again rewarded by proven success in the marketplace.

Record sales for Wine & Spirits. The Company's Wine & Spirits Division achieved record sales in 1977 in the face of increased competitive activity and a generally flat year for the industry. It was a year for strengthening the market positions of our leading brands and launching some high potential new brands. McGuinness introduced new, contemporary packaging for its line of leading liqueurs and Central Canadian introduced LTD, a premium Canadian whisky.

Calona Wines improved its market position with the introduction of Schloss Laderheim, a German-type white wine and Monashee Estate, our first estate-bottled wine.

McGuinness Agencies Limited, importers of fine wines, beers and distilled spirits from around the world, enjoyed a record year in 1977 with solid growth for such popular brands as Blue Nun and Martini & Rossi.

Confectionery market share grows. Lowney's Limited, our confectionery and snack foods division, posted record sales in 1977 and improved market share positions. Planters and Beaver nuts have more than 50% of the market. One out of four boxes of chocolates made in Canada is made by our Moirs plant in Dartmouth. The Lowney's lines of chocolate bars and Gloslettes are among the leaders at point of purchase.

This success has been won in an industry plagued by widely fluctuating commodity prices on cocoa beans and sugar, and price pressure on raw nuts. This situation led to major marketing attention to the division's leading brands.

Oh Henry! is Lowney's #1 chocolate bar. In early 1978 this brand will be re-introduced with a new, tastier formulation, superior packaging material and a clean, more attractive graphic appearance. It will receive intensive advertising support as part of

Lowney's on-going programme of gaining competitive superiority.

Widening product scope for Fleischmann. At 101 years of age, The Fleischmann Company continues to be the preferred source for baking ingredients in Canada. In addition to famous Fleischmann's Yeast the Company in 1977 emphasized full-line marketing of leaveners, dough conditioners, margarines and emulsifiers, resulting in significant volume increases.

Food Service Company establishes records. 1977 resulted in many new sales and earnings records for Standard Brands Food Service Company.

Coffee accounted for the major part of the division's sales with record market share levels. The division continues to encourage growth of other in-house manufactured products such as Planters Peanut Oil, TenderLeaf, The Tea, Blue Bonnet and Fleischmann's margarines, and Royal dessert products.

We enter the entrée business. Late in 1977, Standard Brands Limited completed acquisition of Swan Valley Foods Ltd. of British Columbia. Swan Valley has a unique method for processing main course entrées such as spaghetti and meat balls, beef stew and ravioli. These products, packaged in individual serving pouches, require no refrigeration and have a superior flavour to canned goods. It's our first involvement in the main-course food processing area; an involvement we are most excited about.

A year of change and new responsibilities. On April 29th, 1977, John R. MacDonald was named President and Chief Executive Officer, Standard Brands Limited. At the same time, Gaetan C. Morrisette became Chairman of the Board.



Oh Henry! gets new formulation and new look for 1978.

New full colour packaging for Fleischmann's soft margarine.

During the year, Douglas W. Lauder, President, Lowney's Limited, moved to Standard Brands Inc., to become President of Planters U.S. Operations and was succeeded by Hugo G. L. Powell. James Paul was appointed Vice President, Human Resources. John Greeniaus, formerly Vice President and Chief Operating Officer, Wine & Spirits Division, became President and Chief Executive Officer. Edwin J. Korhonen was named Vice President, Operations.

Subsequent to year-end, Vern J. Housez, a Director of the Company and President, Standard Brands Food Company, was appointed Deputy Chairman of the Board. He was succeeded by I. A. (Arch) Kincaid, previously Vice President, Planning for the Company.

During the year three new Directors were named to the Board: Jeannine Guillevin-Wood, Montreal, Quebec; John Loudon, London, England; and O. Lester Applegate, Sarasota, Florida.

In retrospect 1977 was a significant year for the Company from both a financial and an organizational viewpoint.

We continued our strong growth pattern in the face of a generally difficult year for the Canadian economy and the food processing industry. We improved our competitive position in margarines, pet foods, snack products and institutional coffee.

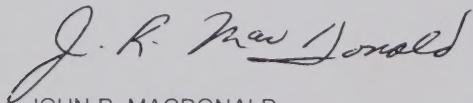
Many business functions such as marketing, planning and operations were centralized for greater efficiency while capital expansion and facility upgrading programmes were accelerated in LaSalle and Sherbrooke, Quebec, Scarborough, Ontario and Weyburn, Saskatchewan.

The Company's major involvement with national fitness and amateur sports programmes was unsurpassed by any company in the food industry. Because of metrification, many package sizes had to be changed. This has given us the opportunity to improve our packaging materials and graphic appearance considerably. For 1978 the Company is well-positioned for profitable growth both in facilities and in human resources. At year-end, 3,205 women and men were employed by the Company across Canada. Their individual dedication to achieving quality standards contributed greatly to our success.

We also wish to thank our suppliers, whose efforts in meeting our requirements during the year were superb.

But it is to the millions of Canadian customers who buy our products that we reserve a special vote of appreciation. In this period of intense competition consumer loyalty is vital to our continued growth.

The Board of Standard Brands Limited expresses its appreciation to all of those involved in helping the Company accomplish another record year.



JOHN R. MACDONALD
President and Chief Executive Officer
Standard Brands Limited



John R. MacDonald, President and Chief Executive Officer, Standard Brands Limited and Martin F. C. Emmett, President, International Standard Brands Incorporated.

CONSUMER FOODS

Standard Brands Food Company is responsible for the manufacture and marketing of the Company's consumer and pet food products. In 1977, the Division accounted for 44% of the Company's net sales. In Consumer Foods, the Company markets cooking oils, margarines, baking aids, teas, coffees and desserts under such popular brand names as Fleischmann's, Blue Bonnet, Planters, Chase & Sanborn, Chipits, Royal and Magic Baking Powder. It is Canada's largest marketer of margarines.



1977 HIGHLIGHTS

- Another record year for the Division with Fleischmann's and Blue Bonnet improving their combined #1 share of the Canadian margarine market.
- New full colour tub packaging introduced for both margarine brands.
- Advertising and market support reached record levels for margarines.
- Every brand received more advertising support than in 1976.
- Scarborough margarine plant capacity improved by 50%—now largest in Canada.
- LaSalle, Quebec, plant general upgrading continued. Almost \$2.5 million spent to date.
- Baking Aids continued in a position of market leadership.
- Swan Valley Foods Ltd. was acquired, giving the Company its first main-course food products.

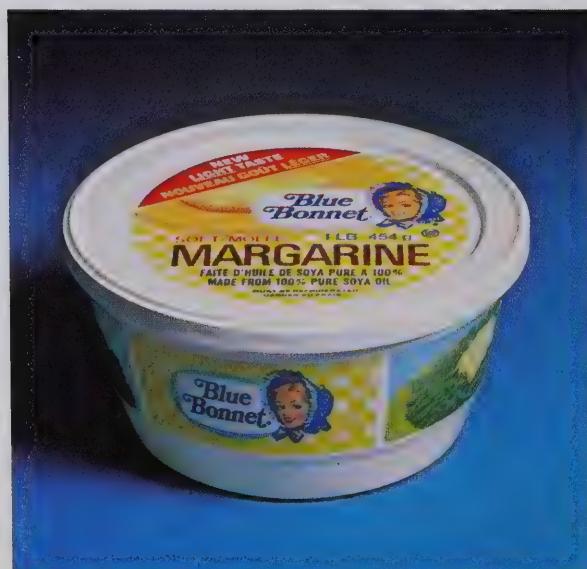
Royal puddings and jellies are popular with shoppers across the country.

CONSUMER FOODS



(right) The soft margarine filling line at Scarborough, Ontario.

(below) Colourful new packaging was introduced for Blue Bonnet in 1977.



New Trend automatic drip coffee is produced in La Salle, Quebec.

Salad Days ahead for Planters Peanut Oil.



At Calgary, finished product heads for the supermarkets.

New product packaging gets close attention from (left) Knut Brundtland, David Parkinson, and Bruce Wood.

PET

Our customers deserve the best.

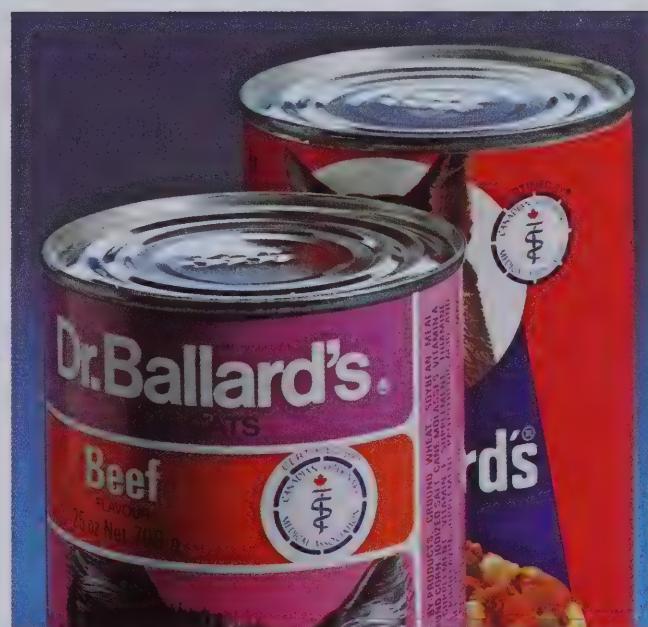


FOODS

Dr. Ballard's and Jean Demers Inc. of Gentilly, Quebec, are the pet food arms of Standard Brands Food Company, and are Canada's largest marketers of pet foods with entries in dry, regular and luxury canned products for cats and dogs. As a leader in the industry, Dr. Ballard's continues its major involvement with the Canadian Veterinary Medical Association and pet owner groups to further improve the nutritional standards of pet foods made in Canada. The official C.V.M.A. Certification Program is a positive outgrowth of this involvement.

1977 HIGHLIGHTS

- Substantially increased dollar contribution to the Division with record sales.
- Gained C.V.M.A. certification for Dr. Ballard's Canned Cat Food and our dry dog food entry, Burgerbits.
- Introduced new TV messages stressing the C.V.M.A. certification—“the proof is on the label.”
- Extensively advertised and merchandised Miss Mew Luxury Canned Cat Food bringing it from a #3 position two years ago, to virtual leadership of the segment.
- Improved overall position as leading pet food marketer in the nation.



In 1977, Dr. Ballard's Canned Cat Food gained certification by the Canadian Veterinary Medical Association, thus joining Dr. Ballard's Dog Food in the right to display the official C.V.M.A. seal on every can.

PET FOODS

Labelling operation at Dr. Ballard's, Winnipeg plant.



Husky brand dog food ready for packing in Vancouver.



Dr. Ballard's multi-lane packing line in Mississauga.



(right) Miss Mew warehousing at the Demers Plant, Gentilly, Quebec.

CONFECTIONERY

Lowney's Limited is the organizational name for the confectionery and snack foods division of Standard Brands Limited. It manufactures and markets more than 300 items in these product areas with manufacturing consolidated in four locations. All box chocolates are made in the Moirs facility, Dartmouth, Nova Scotia. All chocolate bars, including Oh Henry!, Cherry Blossom, Gloslettes, and Eatmore, are made in the Lowney's plant, Sherbrooke, Quebec. Planters and Beaver nut products come from Toronto, Ontario, while Pinetree nut and snack products are made in Vancouver, British Columbia. The Division accounts for one quarter of the Company's Net Sales.

1977 HIGHLIGHTS

- Record sales were achieved with significant growth in box chocolates and nut products.
- Moirs box chocolates consolidated its position as the second largest manufacturer of this category.
- More than 25% of all box chocolates made in Canada are made by Lowney's at the Moirs plant in Dartmouth.
- The combined marketing efforts of Planters, Beaver and Pinetree earned the Division more than 50% of the nut market—clear leadership!
- Planters introduced premium quality Dry Roast Almonds and Dry Roast Sunflower Seeds, with immediate success.
- Major packaging changes and product improvement programmes were accelerated on a wide front.
- Oh Henry!, the Division's # 1 Bar underwent extensive reformulation and new packaging. The tastier, fresher looking Oh Henry! will be launched across Canada in early 1978.



Oh Henry! What do you say?

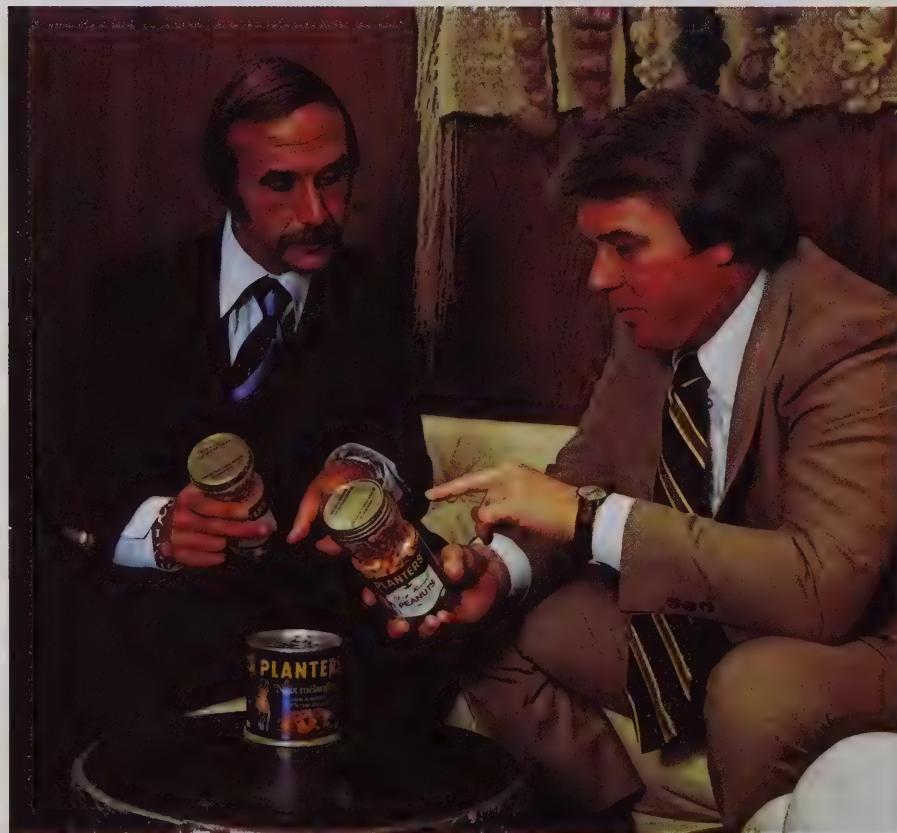
CONFECTIONERY

At Sherbrooke, Quebec, Oh Henry! bars get a final inspection.

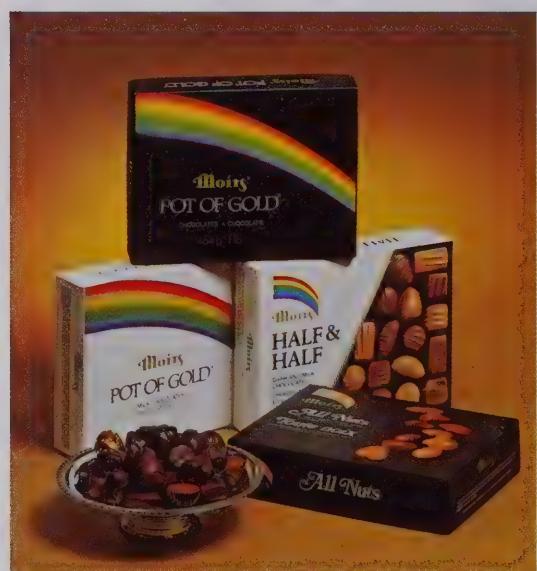
Moirs, Dartmouth, N.S., chocolate enrobing process.



Billy Sherman (left) and Peter Mitchell preview new premium quality Planters nuts.



Moirs Pot of Gold chocolates share a rainbow packaging appeal.





Shown discussing some of Lowney's
300 products are (left to right)
Hugo Powell, Pam Yokom, and John Timson.

In Toronto, Planters Mixed Nuts are vacuum packed
to preserve quality and assure freshness.



WINE AND SPIRITS

Age. The mellow difference in our fine Canadian Whiskies.



McGuinness Distillers Limited, Acadian Distillers Limited, Central Canadian Distilling Corp., Ltd., and Calona Wines Limited comprise the Wine & Spirits Division of Standard Brands Limited. In this highly competitive and closely regulated industry, the Division has shown excellent growth and market penetration. The distillery group is now the fourth largest in the country, while Calona Wines continues to enjoy sales growth and recognition for its quality products in international competitions. The Division also imports and distributes a wide variety of premium beers, ales, wines and distilled spirits through McGuinness Agencies Limited, and Acadian Agencies.

1977 HIGHLIGHTS

- Dollar sales grew significantly to an all-time high.
- The Distillery Group solidified its position as the fourth largest in Canada.
- McGuinness introduced new packaging for its line of market leading liqueurs.
- Central Canadian introduced Canadian LTD., a premium quality whisky.
- Calona Wines was also active:
 - Introduced Schloss Laderheim, made from vinifera Riesling grapes, to capitalize on strong growth of white wine in Canada.
 - Sommet Rouge and Sommet Blanc, award-winning wines, introduced in new 1.5 litre magnum size.
 - Monashee Estate, Calona's first line of estate bottled wines, was introduced.
- McGuinness Agencies and Acadian Agencies had record years with such famous brands as Donini, Sichel, Blue Nun, Lowenbrau and Jack Daniel's.



In the past three years, Calona Wines has won 43 awards in international wine competition.

WINE & SPIRITS

McGuinness' #1 Brand, Silk Tassel is discussed by (left to right) Bob Millar, Sam Feldman, Emerson Mascoll, Harvey Leeking and Barrie Thomson, in Toronto.



Central Canadian Distilling's bottling line in Weyburn, Saskatchewan.



At Acadian Distillers, Bridgetown, N.S., Canadian whisky is being stored in barrels for years of aging, and mellowing.



Grape harvesters come king-size in the Okanagan Valley, B.C.

FOOD SERVICE

The Standard Brands Food Service Company sells to Canadian restaurants and other institutional customers. The Company's main strength lies in beverage products, notably coffee, with brands such as Chase & Sanborn, Melrose and Club. The specialization offered by this organization helps to promote the growth of well-known consumer brands like Planters Peanut Oil, Fleischmann's Corn Oil Margarine, and Royal Desserts among institutional customers.

1977 HIGHLIGHTS

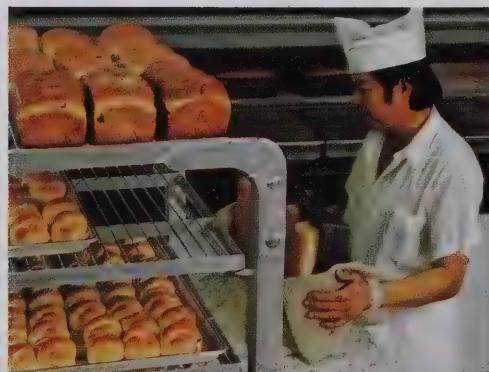
- Spiralling coffee prices directly affected sales volume.
- With the introduction of "The Tea" in 1977, branded tea bag sales rose 60%.
- New convenience-sized bulk margarines were introduced late in the year, helping improve total margarine sales by more than 35%.
- Peanut Oil posted a modest gain while market share gains were achieved on tea bags and margarines in 1977.



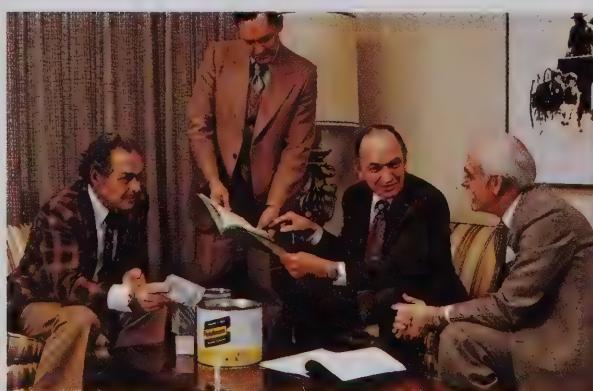
Club Coffee is one of many brands that make the Division one of Canada's leading food service companies.

BAKING INGREDIENTS

The Fleischmann Industrial Company is one of five operating divisions within Standard Brands Limited. Now beginning a second century of service to the baking industry, it is Canada's oldest and largest yeast manufacturer, distributing nationally from production facilities in LaSalle, Quebec, and Calgary, Alberta. In addition to yeast, a broad range of baking ingredients are marketed to meet the specialized needs of bakery production. A hallmark of quality for more than 100 years, Fleischmann's is the oldest name in the Standard Brands family of companies.



Fleischmann's Yeast: number one with Canada's bakers since 1876.



1977 HIGHLIGHTS

- Another year of increased sales in supplying ingredients to a majority of the bakeries across Canada.
- Significant volume growth recorded for leaveners, dough conditioners, industrial margarines, emulsifiers and a range of specialty products.
- Chipits industrial chocolate chips re-introduced on a national scale.
- Improved distribution achieved through expanding our wholesale distributor network across the country.
- Yeast production for Eastern Canada was consolidated in the LaSalle plant to maximize efficiencies and cost controls.
- Emphasis on sales training continued with nine members of our sales organization awarded diplomas by the Bakery Council of Canada upon completion of their extensive course in Bread Making Technology.

In Scarborough, Norm Bennett (left), George Williams, Jim O'Neil and Ray Bambrick talk over upcoming product development.

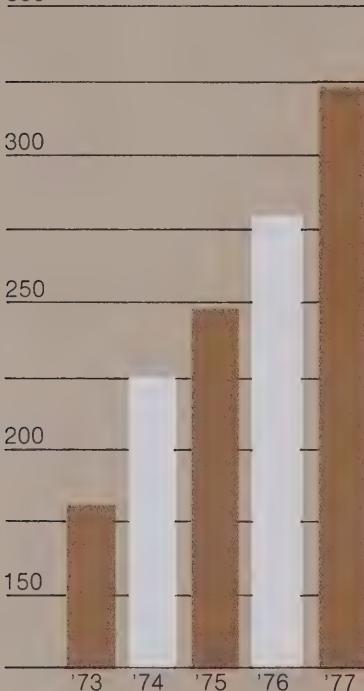
FINANCIAL REPORT

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FIVE YEAR FINANCIAL REVIEW

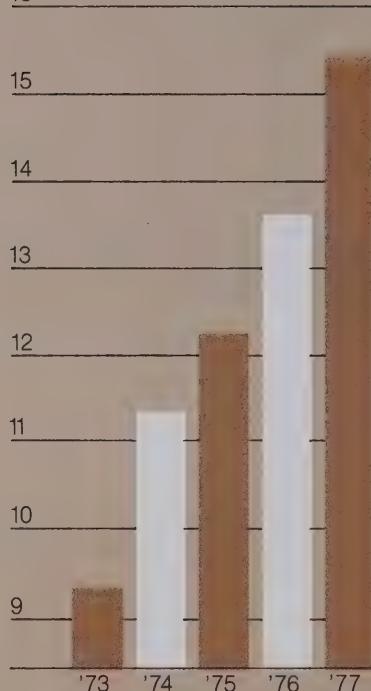
350



NET SALES
(Million of Dollars)

Net sales in 1977 reached a new record of \$324 million, up 15% over last year and equal to the annual compound growth rate over the last five years. This is the 18th consecutive year in which the Company has registered a sales increase.

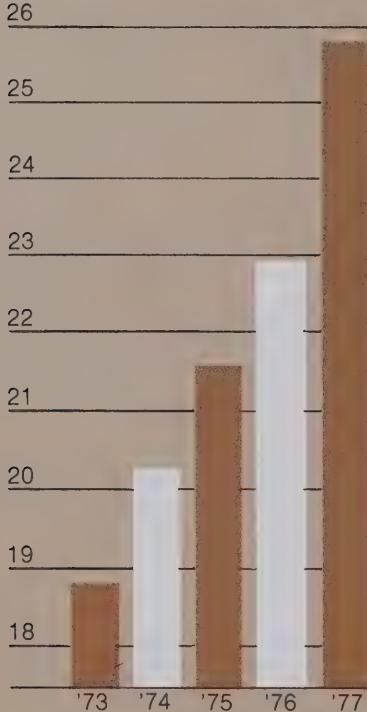
16



PER CAPITA SALES
(Dollars)

In 1977 per capita sales grew to over \$15 and at an annual compound rate of 13% from 1973. This performance reflects the continued increasing consumer acceptance of the Company's product group supported by nationwide sales and distribution.

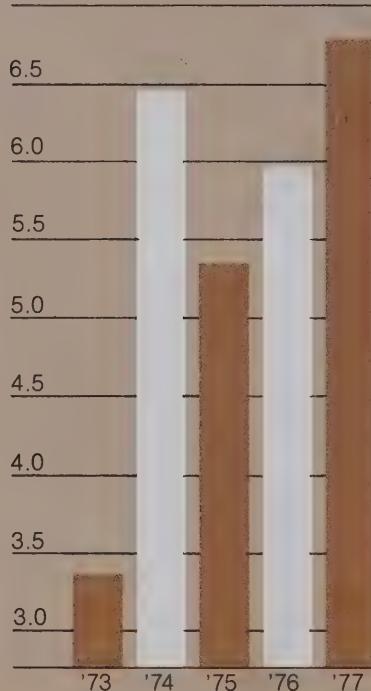
26



CAPITAL INVESTMENT PER EMPLOYEE
(Thousands of Dollars)

The Company's investment in property, plant and equipment as measured per employee, increased to approximately \$26,000 in 1977. This reflects the Company's commitment to reinvest profits into productive resources for the future growth of the Company.

7.0

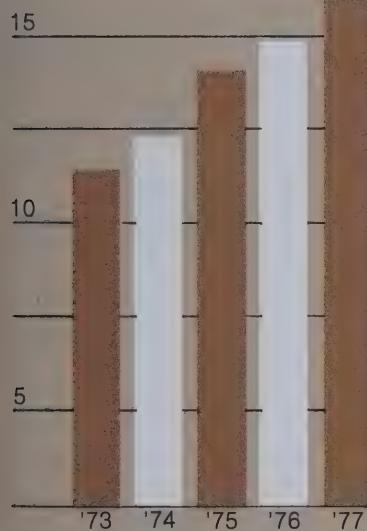


CAPITAL EXPENDITURES
(Thousands of Dollars)

Capital expenditures for 1977 reached a record level of \$6.8 million and brings capital outlays in the last ten years to over \$40 million. These funds were directed toward pollution and quality control equipment, and the expansion and replacement of facilities.

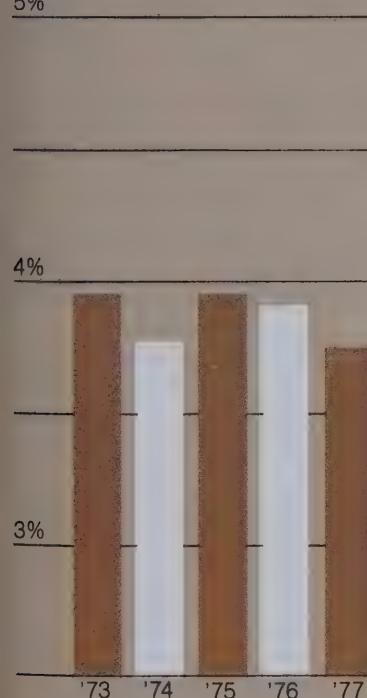
**WORKING CAPITAL PROVIDED
FROM OPERATIONS**
(Millions of Dollars)

The Company's operations generated \$15.7 million in working capital in 1977. During the last five years, working capital from operations has amounted to \$68.4 million. These funds are the primary source of expansion for the Company and are used to finance additions to property, plant and equipment, acquisitions, to repay long term creditors, and to provide for increased inventories.



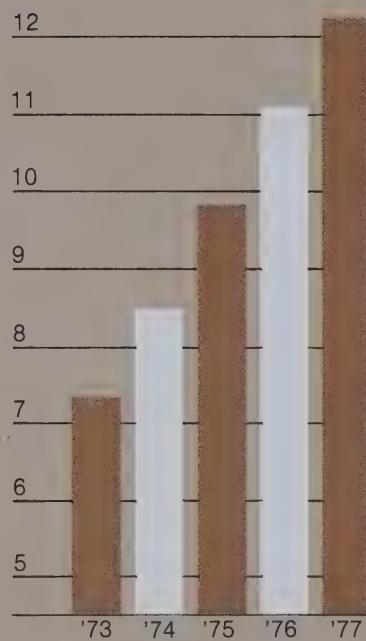
**PROFIT MARGIN
FROM OPERATIONS**
(Percent)

While net income in absolute dollars increased over last year, profit per sales dollar has declined, reflecting a greater absorption of inflated costs.



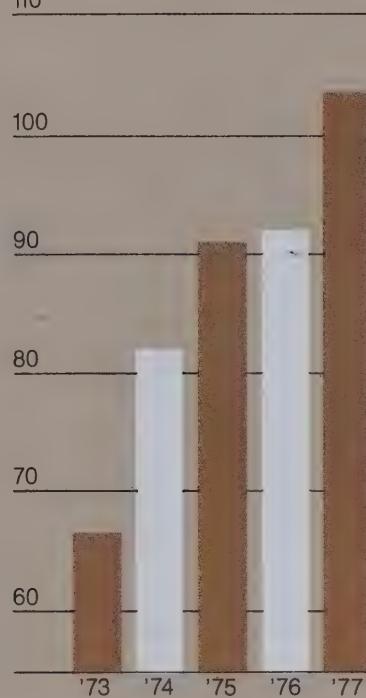
**NET INCOME
FROM OPERATIONS**
(Millions of Dollars)

The Company's net income from operations reached a record \$12.15 million in 1977, a 10% increase over 1976, continuing the trend of the last eleven years.



SHAREHOLDERS' EQUITY
(Millions of Dollars)

Shareholders' equity passed the \$100 million mark during 1977. This was an increase of 12% over 1976, approximately equal to the annual compound growth rate over the last five years and reflects a reinvesting in Canada of approximately 75% of profits earned in Canada. The shareholders' investment in the Company represents a substantial base to ensure the financial resources to continue the growth experienced by the Company to date.



INCOME & RETAINED EARNINGS

Standard Brands Limited and Subsidiaries
for the years ended December 31, 1977 and 1976
(in thousands of dollars)

	1977	1976
SALES	\$356,377	\$315,164
Less—sales and excise taxes	32,381	32,908
NET SALES	\$323,996	\$282,256
Cost of sales	223,073	190,860
GROSS MARGIN	\$100,923	\$ 91,396
Selling, administrative and other expenses	81,223	72,001
INCOME BEFORE TAXES on income	\$ 19,700	\$ 19,395
Provision for taxes on income	7,543	8,339
NET INCOME	\$ 12,157	\$ 11,056
RETAINED EARNINGS, beginning of year	68,115	58,494
	\$ 80,272	\$ 69,550
Preferred dividends	—	435
Common dividends	1,000	1,000
RETAINED EARNINGS, end of year	\$ 79,272	\$ 68,115

The accompanying notes are an integral part of these consolidated financial statements.

CHANGES IN FINANCIAL POSITION

Standard Brands Limited and Subsidiaries
for the years ended December 31, 1977 and 1976
(in thousands of dollars)

1977 1976

SOURCE OF WORKING CAPITAL:

Net income	\$12,157	\$11,056
Depreciation and amortization	2,807	2,829
Deferred income taxes	705	1,028
Total from operations	\$15,669	\$14,913
Sinking fund debentures and promissory note (Note 5)	27,000	—
Other	122	313
	\$42,791	\$15,226

USE OF WORKING CAPITAL:

Additions to property, plant and equipment—net	\$ 6,511	\$ 5,826
Dividends paid	1,000	1,435
Cost of acquisition plus working capital deficiency assumed (Note 6)	3,034	—
Long-term debt (Note 5)	531	2,313
Redemption of preferred shares (Note 7)	—	8,418
Deferred financing cost	247	—
	\$11,323	\$17,992
INCREASE (DECREASE) IN WORKING CAPITAL	\$31,468	(\$ 2,766)
WORKING CAPITAL, beginning of year	25,831	28,597
WORKING CAPITAL, end of year	\$57,299	\$25,831

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED

Standard Brands Limited and Subsidiaries
 December 31, 1977 and 1976
 (in thousands of dollars)

ASSETS	1977	1976
CURRENT ASSETS:		
Cash	\$ 1,249	\$ 1,118
Marketable securities, at market	—	179
Accounts receivable	36,149	28,840
Due from parent and affiliates	1,869	—
Inventories, at the lower of average cost or market (Note 2)	75,451	66,382
Prepaid expenses	2,230	1,867
Total current assets	\$116,948	\$ 98,386
DEBENTURES RECEIVABLE (Note 3)	\$ 1,954	\$ 1,988
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	\$ 1,225	\$ 1,230
Buildings	28,080	27,077
Machinery and equipment	53,910	48,108
	\$ 83,215	\$ 76,415
Less—accumulated depreciation	33,877	31,609
	\$ 49,338	\$ 44,806
OTHER ASSETS, at cost	\$ 2,511	\$ —
GOODWILL, at cost less accumulated amortization of \$1,990 in 1977 and \$1,657 in 1976	\$ 33,231	\$ 33,643
	\$203,982	\$178,823

Approved on behalf of the Board:

H. Minniti Director
J. R. Mac Donald Director

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
CURRENT LIABILITIES:		
Bank loans and other short-term borrowings (Note 4)	\$ 31,230	\$ 41,565
Current maturities—long-term debt (Note 5)	893	862
Due to parent and affiliates	—	5,968
Accounts payable and accrued expenses	22,848	20,985
Income and other taxes	4,678	3,175
 Total current liabilities	 \$ 59,649	 \$ 72,555
DEFERRED LIABILITIES		
LONG-TERM DEBT (Note 5)	\$ 117	\$ 348
DEFERRED INCOME TAXES	\$ 31,117	\$ 4,648
MINORITY INTEREST	\$ 9,791	\$ 9,086
 SHAREHOLDERS' EQUITY:	 \$ 105	 \$ 140
Capital Stock—		
Authorized—		
1,000,000 preferred shares (Note 7)		
100,000 common shares, no par value		
Issued and outstanding—		
77,600 common shares	\$ 23,931	\$ 23,931
Retained earnings	79,272	68,115
	\$103,203	\$ 92,046
	 \$203,982	 \$178,823

The accompanying notes are an integral part of these consolidated financial statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS
 Standard Brands Limited and Subsidiaries
 December 31, 1977 and 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The consolidated financial statements include the assets and liabilities, results of operations and changes in financial position of all subsidiaries.
- b) Foreign dollar balances included in current assets and current liabilities have been translated to Canadian dollars at the applicable rate of exchange at the end of the year.
- c) Depreciation is charged on plant and equipment on a straight-line basis over the estimated useful lives of the assets.
- d) Goodwill acquired after 1970 is being amortized over a period not to exceed forty years. Goodwill acquired prior to October, 1970, is not being amortized and amounts to \$21,963,000.
- e) Deferred income taxes result substantially from the excess of capital cost allowances claimed for tax purposes over depreciation recorded for book purposes.
- f) Changes to the Canadian Income Tax Act relating to a 3% inventory allowance on opening inventory, have been reflected in the calculations of provision for taxes on income as of December 31, 1977.

2. INVENTORIES

	(in thousands of dollars)	
	1977	1976
Inventories consist of:		
Finished goods	\$ 24,616	\$ 20,824
Work in process	27,630	25,966
Raw materials and packing supplies	23,205	19,592
	\$ 75,451	\$ 66,382

3. DEBENTURES RECEIVABLE

Debentures receivable represent part of the consideration received on the sale of various properties and are repayable mainly in 1980 and 1981.

4. BANK LOANS AND OTHER SHORT-TERM BORROWINGS

As of December 31, 1977 and 1976, bank loans and other short-term borrowings consisted of the following:

	(in thousands of dollars)	
	1977	1976
Bank loans	—	\$ 5,480

Short-term promissory notes outstanding

— Due to Standard Brands Incorporated	26,000	14,835
— Other	5,230	21,250
	\$ 31,230	\$ 41,565

5. LONG-TERM DEBT

As of December 31, 1977 and 1976, long-term debt consisted of the following:

	(in thousands of dollars)	
	1977	1976
a) Lowney's Limited		
5.55% Secured building loan, maturing serially to May 1, 1980.	677	880
b) L.J. McGuinness & Co. Limited		
8% Loan due December 31, 1981 secured by a first mortgage on real and immovable property and a chattel mortgage on machinery, equipment, goods and chattels of a subsidiary.	423	549
7 1/2% Debentures due November 1, 1987, secured by first mortgages and a first floating charge on all real and immovable property owned by the Company and its subsidiaries and all property subsequently acquired, except as otherwise pledged.	1,425	1,568
c) Central Canadian Distilling Corp. Ltd.		
Loans payable maturing between 1980 and 1985, secured by mortgages and a debenture constituting a floating charge on all assets of the Company bearing interest rates between 9% and 9 1/2%.	1,042	1,315
Carried forward	\$ 3,567	\$ 4,312

	1977	1976
Brought forward	\$ 3,567	\$ 4,312
d) Standard Brands Limited		
9.75% Sinking Fund debentures due December 15, 1997, guaranteed by Standard Brands Incorporated, with sinking fund payments of \$1,000,000 beginning 1981	25,000	—
10% Promissory note maturing in five equal successive annual instalments between 1981 and 1985.	2,000	—
e) Other	1,443	1,198
/ Less—current maturities	\$ 32,010	\$ 5,510
	893	862
	\$ 31,117	\$ 4,648

6. ACQUISITION

On December 1, 1977, the Company acquired 100% of the outstanding shares and certain debentures of Swan Valley Foods Ltd. from the British Columbia Government for a total purchase price of \$2,200,000. Swan Valley has substantial unclaimed capital cost allowances, tax loss carry-forwards and other available tax deductions which will be available for reduction of taxes otherwise payable in future years.

7. PREFERRED SHARES

The authorized capital stock of the Company includes 1,000,000 cumulative, non-voting, preferred shares of \$20 par value, to be issued in series. Of the preferred shares, 425,000 have been designated as 8% Series A, redeemable, of which 420,900 were issued in 1974 and were redeemed on August 23, 1976.

8. COMMITMENTS

- Rent expense totalled \$1,194,000 for the year ended December 31, 1977 and will be \$1,571,000 in 1978. Commitments beyond 1978 amount to \$14,053,000 and extend to 1995.
- The company has an agreement under which it is required to purchase distilled spirit no later than December 31, 1980. As of December 31, 1977 the commitment was approximately \$11,466,000.

9. STATUTORY INFORMATION

- Interest on long-term debt aggregated \$608,000 in 1977 and \$745,000 in 1976.

b) There were 13 directors (14 in 1976) and 15 officers (15 in 1976) for the year ended December 31, 1977. Aggregate remuneration for directors (as directors) and officers (as officers) was \$66,000 (\$30,000 in 1976) and \$769,000 in 1977 (\$699,000 in 1976) respectively. There were 3 officers who were directors in 1977 (5 in 1976).

10. PENSION PLANS

The Company contributes to several pension plans covering substantially all eligible employees. Contributions are charged to expense and amounted to \$1,098,000 in 1977 and \$1,012,000 in 1976 including amortization of past service costs which are not significant. Pension fund assets in each plan exceed vested benefits.

11. ANTI-INFLATION ACT

The Company is subject to the Anti-Inflation Act and related regulations. In all material respects, the Company is in compliance with this legislation and is monitoring its activities to ensure continued compliance.

To the Shareholders,
Standard Brands Limited:

We have examined the consolidated balance sheet of STANDARD BRANDS LIMITED (incorporated under the Canada Corporations Act) AND SUBSIDIARIES as of December 31, 1977 and 1976, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Standard Brands Limited and subsidiaries as of December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the periods.

February 6, 1978

Arthur Andersen & Co.

CORPORATE OFFICERS

Gaetan C. Morrisette
Chairman of the Board

John R. MacDonald
President and Chief Executive Officer

Vern J. Housez
Deputy Chairman

I. A. Kincaid
Vice-President

Edwin J. Korhonen
Vice-President

Ronald S. Leiffer
Vice-President

James F. O'Neil
Vice-President

James Paul
Vice-President

Hugo G. L. Powell
Vice-President

Raymond F. Wright
Vice-President

Simon Gulden
General Counsel and Secretary

Kenneth W. Baxter
Comptroller

Peter F. Winstanley
Treasurer

MANAGEMENT COMMITTEE:

Bottom, left to right:
Hugo G. L. Powell
John R. MacDonald
James Paul

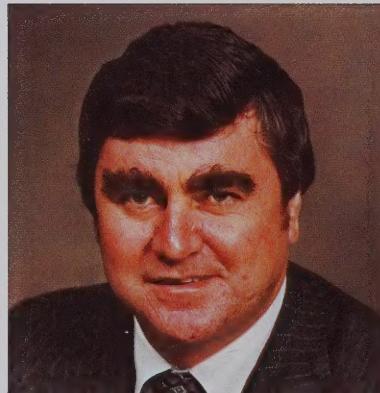
Top, left to right:
H. John Greeniaus
I. A. Kincaid
Raymond F. Wright
Edwin J. Korhonen
Simon Gulden
Ronald S. Leiffer



BOARD OF DIRECTORS



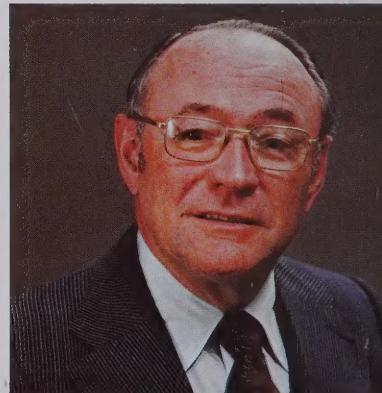
Gaetan C. Morissette, Montreal, Quebec. Chairman of the Board, Standard Brands Limited.



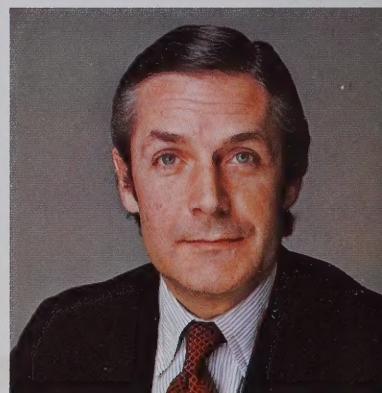
John R. MacDonald, Montreal, Quebec. President and Chief Executive Officer, Standard Brands Limited.



Martin F. C. Emmett, Greenwich, Connecticut. President, International Standard Brands Incorporated.



O. Lester Applegate, Sarasota, Florida. Executive Assistant to the Chairman, Standard Brands Incorporated.



John Loudon, London, England. Director, N. M. Rothschild & Sons Ltd.



Matthew S. Hannon, Q.C., Montreal, Quebec. Partner, Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard.



Vern J. Housez, Montreal, Quebec. Deputy Chairman of the Board, Standard Brands Limited.



Ben Wosk, Vancouver, British Columbia. President and Chief Executive Officer, Wosk's Limited.



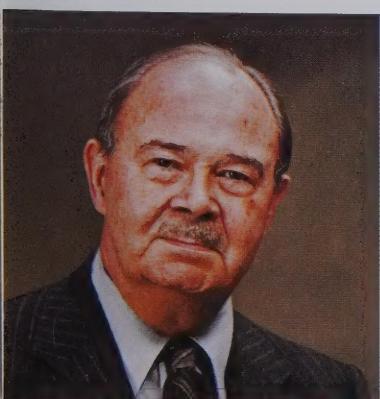
Jeannine Guillevin-Wood, Outremont, Quebec. President, Guillevin Allied Ltée/Ltd.



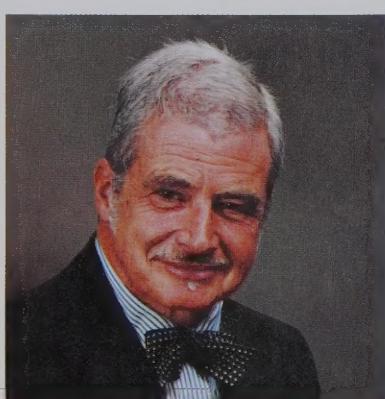
Dr. David S. R. Leighton, Banff, Alberta. Director, The Banff Centre.



C. Richard Sharpe, Toronto, Ontario. Vice President Merchandising, Simpsons-Sears Limited.



John T. Johnson, Q.C., Toronto, Ontario. Partner, Borden & Elliot.



Frank M. Covert, O.B.E., Q.C., Halifax, Nova Scotia. Partner, Stewart, MacKeen & Covert.



Standard Brands
LIMITED